

Executive Registry

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NOTE FOR THE DIRECTOR

FROM: E. H. Knoche
Acting D/DCI/IC

SUBJECT: Senate Budget Committees

Joseph McCaffrey's interview with Senator Pete Domenici (Republican New Mexico) last night (3/15/76) provided some interesting insight into how the Senate Budget Committee may do its business. The Senator made the following points:

- SBC work would be done through debate after receiving inputs from appropriations and authorization committees by 15 March (he probably meant 15 April). Presumably this means they will not hold budget hearings.
- The SBC would probably recommend a budget that is The Senator felt that Mr. Ford's budget does a pretty good job in controlling the federal deficit.
- The committee has received valuable briefings from SecDef and Director, CIA which indicated, among other things, that we have a rough parity with the USSR on defense spending but that our trend is down while their's is up. The Senator feels the trend must be reversed; consequently, there would be no cut of the DoD budget recommended by SBC. (As an aside, Mr. Dominici noted that the committee should be content on such matters to accept the word of this government's experts such as Mr. Rumsfeld and the Director, CIA--whom they had already heard from--and not try to second guess them.)
- The Senator also said that he felt the most important job of the committee was to set priorities but he was not confident that it would succeed in doing so. If that is the case, the Senator felt the committee ought to adopt a

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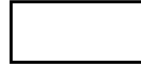
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strategy of working toward a balanced FY 1979 federal budget and be content to let the priorities sort themselves out within that context.

- Senator Dominici agreed with Mr. McCaffrey's observation that the defense budget was not "a controllable" (i.e., we had no choice, we must spend money on defense); consequently, the budget can be balanced only by controlling domestic spending.

Also of interest, today's Washington Post carried an article describing the first Congressional Budget Office report on spending and tax alternatives. The report, which goes to the Senate and House Budget Committees, argues that the President's budget is too low to continue stimulating the nation's economic recovery. It prices an FY 77 budget which continues current policy (on which recovery is based) at \$422B (or \$26B higher than the President's budget). The bottom line on the report is that if the momentum of the recovery is not maintained, we risk unacceptably high unemployment levels. This is a most persuasive argument, particularly in an election year. Considering both Senator Dominici's views and the CBO report, it appears that pressure is building on the CBC's for FY 77 increases, not cuts. And, the increases are most likely in domestic programs.



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cc: OLC